

**19 December 2016**

Following more than two decades of economic stagnation, Japan is pushing ahead with a 'three arrow' reform: the 'Abenomics', named after Liberal Democrat Prime Minister Shinzō Abe. The package includes fiscal stimulus, monetary easing and structural changes. The reforms are being pursued against a challenging background, including high government debt and an ageing and shrinking population. By winning the December 2014 elections, Abe has secured a third term as premier, making him the strong leader the country needs to negotiate on issues such as the Northern Territories/Southern Kurils with Russia. But threats such as North Korea's nuclear programme and the Chinese assertiveness in the East and South China Sea make the external security environment vulnerable. That is why the government has adopted a defence and security policy reform, including the reinterpretation of Article 9 of the Japanese Constitution in order to allow its Self-Defence Forces to come to the aid of any ally under attack. Currently the EU and Japan are negotiating a new Framework Agreement and a Free Trade Agreement in order to exploit the untapped potential of their economic relations.

Japan: economic indicators and trade with EU

Infographic by Enrico D'Ambrogio and Giulio Sabbati, Members' Research Service; Laura Bartolini, GlobalStat | EUI, December 2016

Japan is one of the most developed countries in the world. Its per capita GDP, though lower than in the past, is still higher than that of the EU. Unemployment is traditionally low. In terms of the Human Development Index (HDI), Japan is better placed than many EU Member States. However, it also has the largest public debt among the OECD countries and slow GDP growth. The EU-Japan Free Trade Agreement currently being negotiated may exploit the untapped potential of economic relations. For instance, Japanese FDI inflows to the EU are decreasing, while EU investment in Japan is far from significant, despite a generally favourable Japanese business environment.

International Agreements in Progress: Prospective EU-Japan free trade agreement

Briefing by Krisztina Binder, October 2016

Negotiations on an EU-Japan Free Trade Agreement (FTA) were officially launched in March 2013. The deal with Japan, the EU's second largest trading partner in Asia, is expected to enhance trade and investment relationships between the two parties. European companies, especially those in the food, feed and processed food sectors, will benefit from improved access to the Japanese market, mainly through the reduction of tariffs on specific goods as well as existing regulatory and non-tariff barriers.

Japan: Defence and security policy reform

Briefing by Enrico D'Ambrogio, January 2016

On September 2015 the National Diet of Japan approved a long-awaited reform of Japan's defence and security laws. Article 9 of the Constitution has been reinterpreted: Japan's Self-Defence Forces can now come to the aid of any ally which is under attack, in particular the US, which has guaranteed Japan's security since the end of the Second World War. This change was one of a series of reforms and initiatives, including setting up a National Security Council, defining a national security strategy, adopting a law on classified information and revising the Principles on Arms Exports. The guidelines for cooperation with the US have been revised.

Japan-Russia Summit: Time to exploit complementarities?

Briefing by Enrico D'Ambrogio, December 2016

Russian President Vladimir Putin's visit to Japan on 15 and 16 December 2016 is the outcome of Japanese Prime Minister Abe's effort to create a climate of confidence between the two countries, and thereby achieve an agreement on the territorial dispute that has prevented the signature of a peace treaty for more than 70 years, which concerns the islands known as the Northern Territories or Southern Kurils.

[Japan's humanitarian assistance](#)

At a glance by Enrico D'Ambrogio, May 2016

Domestic experience of natural disasters has made Japan a global leader in disaster risk reduction. Japan is now the fifth largest donor of humanitarian aid, and Japan Disaster Relief teams are highly appreciated. On the eve of the World Humanitarian Summit (WHS), Tokyo underlines the importance of strengthening coordination between humanitarian and development assistance.

[Japan's national budget: Procedure and the public debt burden](#)

At a glance by Enrico D'Ambrogio and Matthew Parry, February 2016

Japan's budget is compiled by its Ministry of Finance based on estimates from other ministries and guidance from the Cabinet, before being approved by the Diet. Budget-makers are formally constrained by the 1947 Public Finance Act (PFA): the government may only issue 'construction bonds' to finance investment in infrastructure, as opposed to covering ongoing social security spending. This constraint is belied by two major fiscal challenges facing Japan: the increasing share of social transfers in the budget, which is connected to the ageing of the population and a structural decline in Japan's economic capacity; and an ever-growing gross national debt that, at 246 % of GDP, in relative terms already dwarfs that of any other G7 nation.

[Japan's Prime Minister wins his electoral bid](#)

At a glance by Lorenzo Costantini, January 2015

Prime Minister Shinzō Abe dissolved the lower house and called an early election in December 2014. The contest was also regarded as a referendum on his growth strategy, widely known as 'Abenomics'. Taking advantage of opposition parties' weakness and with the lowest turnout in post-war Japan, Abe's Liberal Democratic Party emerged as the big winner, securing him a third term as premier.

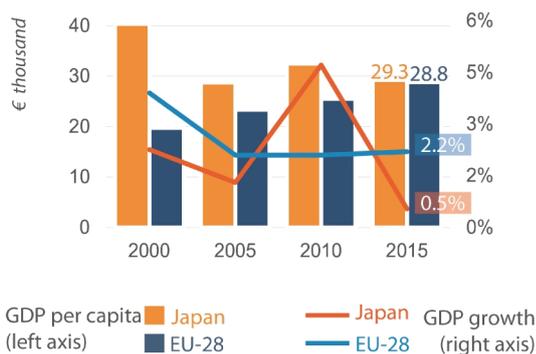
Further reading

[Japan and the EU \[What Think Tanks are thinking\]](#)

At a glance by Marcin Grajewski, 4 April 2016

More in the [Graphics Warehouse](#)

GDP per capita (€) and annual growth (%) in Japan and the EU-28

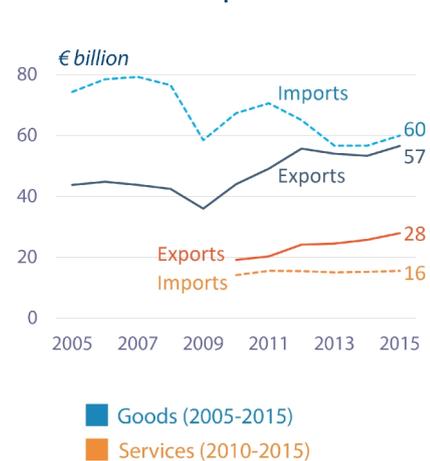


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Source: [IMF WEO](#), 2016

EU trade with Japan



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Source: [World Bank](#), 2016

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